

BEFORE  
THE PUBLIC SERVICE COMMISSION OF  
SOUTH CAROLINA  
DOCKET NO. 2006-3-E - ORDER NO. 2006-554  
SEPTEMBER 29, 2006

IN RE: Duke Power Company d/b/a Duke Energy	)	ORDER REGARDING
Carolinas, LLC – Annual Review of Base	)	PRUDENCE REVIEW OF
Rates for Fuel Costs.	)	FUEL PURCHASING
	)	PRACTICES

This matter before the Public Service Commission of South Carolina (“Commission”) arises out of its duties under S.C. Code Ann. Section 58-27-865 (Supp. 2005), which established a procedure for annual hearings to allow the Commission and all interested parties to review the prudence of the fuel purchasing practices and policies of an electrical utility and for the Commission to determine if any adjustment in a utility’s fuel cost recovery mechanism is necessary and reasonable. The parties before the Commission in this present docket are Duke Power, a division of Duke Energy Corporation (“Duke” or “the Company”), the Office of Regulatory Staff of South Carolina (“ORS”), and South Carolina Energy Users Committee (“SCEUC”), (collectively referred to as the “Parties” or sometimes individually as a “Party”).

In the present case, S.C. Code Ann. Section 58-27-865(B) requires the Commission to review and investigate Duke’s estimate of its fuel costs for the next twelve months and conduct a public hearing to determine whether an increase or decrease in the base rate amount designed to recover fuel costs should be granted. A hearing in

this matter was held on August 24, 2006, before this Commission.<sup>1</sup> At the hearing, the Parties presented a settlement agreement (“Agreement”) the ORS had filed with the Commission on August 15, 2006. In the Agreement, the Parties represent to the Commission that they have engaged in discussions on the issues of this case and further that the Parties have each determined that their interests and the public interest would be best served by settling all issues pending in the above-captioned case under the terms and conditions set forth in the Agreement executed by the Parties. (The five page Agreement is attached to this Order as Order Exhibit 1 and is incorporated in and made a part of this Order.)

Counsel for all parties appeared before the Commission, as did ORS witnesses Jacqueline R. Cherry and M. Anthony James, and Duke witnesses Elliot Batson, Bill McCollum, Ron Jones, and Janice Hager. The pre-filed testimony of all witnesses was accepted into the record without objection, and the exhibits attached to each witness’ pre-filed testimony was entered into the record of the case as well.

Ms. Cherry testified as to the audit carried out by ORS, as well as agreed upon accounting adjustments as reflected in the Agreement. With regard to the true-up of over/under-recovered fuel costs, she testified that ORS analyzed the cumulative over/under-recovery of fuel costs that the Company incurred for the period July 2005, through June 2006. The cumulative over-recovery amount totaled \$6,984,672 as of June 2006. ORS then added the projected under-recovery of \$(6,631,182) for the month of July 2006, the projected under-recovery of \$(5,305,337) for the month of August 2006,

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<sup>1</sup> On August 23, 2006, we granted the Motion of Duke to treat specific material filed in the present proceeding as confidential. Specifically, the Commission Ordered that certain materials contained in Duke witnesses Janice D. Hager’s and Ronald A. Jones’ testimony and exhibits should be treated as confidential.

and the projected over-recovery of \$29,328 for September 2006, to arrive at a cumulative under-recovery of \$(4,922,519) as of September 30, 2006. The Parties agreed to stipulate to the ORS' calculations in this matter.

Mr. James testified as to ORS' assessment of the reasonableness of Duke's costs and operations, and further explained and supported the Agreement as a reasonable resolution of all issues in the current docket. According to Mr. James, the Parties agreed that the appropriate fuel factor for Duke to charge is 1.7760 cents per kilowatt hour for the period beginning October 2006, and extending through September 2007. Fuel costs for the period beginning on July 1, 2006, and thereafter, will be open issues for determination by the Commission in future fuel costs proceedings.

Mr. James further testified that, to keep the parties and Duke customers informed of the over/under-recovery balances related to fuel costs and of Duke's best efforts to forecast the expected fuel factor to be set at its next annual fuel proceeding, the Agreement confirms that Duke will provide the South Carolina Energy Users Committee, and where applicable, its customers, 1) copies of the monthly fuel recovery reports currently filed with the PSC and ORS; and 2) a quarterly forecast as more specifically delineated in the Agreement. Duke also agrees to provide to the Commission and ORS any and all subsequent reports of publicly filed materials generated by the Nuclear Regulatory Commission or Duke with respect to the unresolved items listed in the June 29, 2006, Nuclear Regulatory Commission's Inspection Report associated with the May 20, 2006, forced outages experienced by Duke's Catawba units.

Mr. Batson testified regarding Duke's fossil fuel purchasing practices and costs for the period of July, 2005, through June, 2006, and described any related changes forthcoming in the projected period. Duke witness McCollum discussed the performance of Duke's fossil-fueled and hydroelectric generating facilities during the period of July 1, 2005, through June 30, 2006, and their operating efficiency during the test period. Of particular note was Mr. Batson's testimony that the November, 2005, issue of *Electric Light and Power* magazine ranked Duke Energy's Marshall Steam Station and Belews Creek Steam Station for that month as the country's second and third most energy efficient coal fired generators, respectively. In sum, Mr. Batson testified that Duke's generating system operated efficiently and reliably during the test period.

In his testimony, Mr. Jones discussed the performance of Duke Energy Carolinas' nuclear generation fleet during the test period, provided information regarding the Company's nuclear fuel purchasing practices and costs for the test period and described changes forthcoming in the 2006-2007 forecast period. He reported to the Commission that Duke achieved a net nuclear capacity factor, excluding reasonable outage time, of 102.69% for the current period, which is above the 92.5% set forth in South Carolina Code 58-27-865.

Ms. Hager testified regarding the Company's procedures and accounting for fuel, actual fuel costs incurred since July, 2005, the associated fuel over/under-recovery, and the Company's computations of projected fuel cost. She described how the various components of fuel are included in the calculation of the Company's fuel expenses, and explained the basis for estimated fuel costs during the billing period. In proposing a fuel

factor of 1.7760 cents per kilowatt hour for the period of October 1, 2006, through September 30, 2007, Ms. Hager believes such a factor would result in the Company being neither under nor over-recovered in its fuel costs at the end of the billing period in September 2007.

Having heard the testimony of the witness and representations of counsel and after careful review of the Agreement, the Commission finds that approval of the terms set out in the Agreement is consistent with the standards for fuel review proceedings conducted pursuant to S.C. Code Ann. §58-27-865 (Supp. 2005). The terms allow recovery in a precise and prompt manner while assuring public confidence and minimizing abrupt changes in charges to customers. As such, approval of the Agreement is in the public interest as a reasonable resolution of the issues in this case. Additionally, we find that the terms provide stabilization to the fuel factor and minimize fluctuations for the near future. We further find that the resolution espoused in the Agreement does not appear to inhibit economic development. Additionally, the Commission finds and concludes that the Agreement affords the Parties with the opportunity to review costs and operational data at succeeding fuel review proceedings conducted pursuant to S.C. Code Ann. §58-27-865 (Supp. 2005).

IT IS THEREFORE ORDERED THAT:

1. The Agreement attached hereto and the pre-filed testimony of Jacqueline R. Cherry and M. Anthony James, and Duke witnesses Elliot Batson, Bill McCollum, Ron Jones, and Janice Hager, along with their related exhibits, are accepted into the record in the above-captioned case without objection. Further, the oral testimony of the

above witnesses presented at the hearing on August 24, 2006, is also incorporated into the record of this case.

2. The Agreement is incorporated into this present Order by reference and attachment and is found to be a reasonable resolution to the issues of this case and further found to be in the public interest.

3. Duke shall set its fuel factor at 1.7760 cents per kwh effective for bills rendered on and after the first billing cycle of October 2006 and continuing through the billing month of September 2007.

4. The Parties shall abide by all terms of the Agreement.

5. Duke shall file an original and ten (10) copies of the South Carolina Retail Adjustment for Fuel Cost and all other retail Tariffs within ten (10) days of receipt of this Order with the Commission and ORS.

6. Duke shall comply with the notice requirements set forth in S.C. Code Ann. §58-27-865(B) (Supp. 2005).

7. Duke shall continue to file the monthly reports as previously required.

8. Duke shall account monthly to the Commission and ORS for the differences between the recovery of fuel costs through base rates and the actual fuel costs experienced by booking the difference to unbilled revenues with a corresponding deferred debit or credit. ORS shall monitor the cumulative recovery account.

9. Duke shall submit monthly reports to the Commission and ORS of fuel costs and scheduled and unscheduled outages of generating units with a capacity of 100 MW or greater.

10. This Order shall remain in full force and effect until further Order of the Commission.

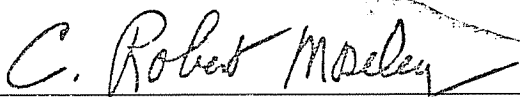
BY ORDER OF THE COMMISSION:



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G. O'Neal Hamilton, Chairman

ATTEST:



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C. Robert Moseley, Vice Chairman

(SEAL)

BEFORE  
THE PUBLIC SERVICE COMMISSION OF  
SOUTH CAROLINA  
DOCKET NO. 2006-3-E  
August 14, 2006

IN RE:

Duke Power Company LLC d/b/a	)	
Duke Energy Carolinas, LLC	)	<b>SETTLEMENT AGREEMENT</b>
Annual Review of Base Rates for	)	
Fuel Costs	)	

This Settlement Agreement is made by and among the Office of Regulatory Staff of South Carolina ("ORS"), South Carolina Energy Users Committee ("SCEUC"), and Duke Power Company LLC d/b/a Duke Energy Carolinas, LLC ("Duke") (collectively referred to as the "Parties" or sometimes individually as a "Party").

WHEREAS, the above-captioned proceeding has been established by the South Carolina Public Service Commission ("Commission") pursuant to the procedure in S.C. Code Ann. §58-27-865 (Supp. 2005), and the Parties to this Settlement Agreement are parties of record in the above-captioned docket. There are no other parties of record in the above-captioned proceeding;

WHEREAS, the Parties have engaged in discussions to determine if a settlement of the issues would be in their best interests;

WHEREAS, following those discussions the Parties have each determined that their interests and the public interest would be best served by settling all issues pending in the above-captioned case under the terms and conditions set forth below:

1. The Parties agree to stipulate into the record before the Commission the pre-filed direct testimony of ORS witnesses M. Anthony James and Jacqueline R. Cherry, without objection or cross-examination by the Parties, subject to questions from the Commission. The Parties also agree to stipulate into the record before the Commission the redacted and unredacted pre-filed direct testimony of Duke witnesses M. Elliott Batson, Ronald A. Jones, William R. McCollum, Jr. and Janice D. Hager, without objection or cross-examination by the Parties, subject to questions from the Commission. The Parties agree that no other evidence will be offered in the proceeding by the Parties other than the stipulated testimony and this Settlement Agreement. The Parties agree to present all witnesses at the scheduled hearing in this matter.

2. ORS analyzed the cumulative over-recovery of fuel costs that Duke had incurred for the period July 2005 through June 2006 totaling \$6,984,672. ORS added the projected under-recovery of (\$6,631,182) for the month of July 2006, the projected under-recovery of (\$5,305,337) for the month of August 2006 and the projected over-recovery of \$29,328 for the month of September 2006, to arrive at a cumulative under-recovery of (\$4,922,519) as of September 2006. Duke's cumulative over-recovery, per its testimony in this docket, as of June 2006 totals \$6,987,000, and as of September 2006, the cumulative under-recovery totals (\$4,920,000). The difference between Duke's and the ORS' cumulative over-recovery as of actual June 2006 totals \$2,328 which is due to rounding. The



difference between Duke's and ORS' cumulative under-recovery, as of September 2006, totals (\$2,519) is also due to rounding. The Parties agree to stipulate to the ORS' calculations in this matter.

3. The Parties agree that the appropriate fuel factor for Duke to charge for the period beginning with the first billing cycle in October 2006 extending through the last billing cycle of September 2007 is 1.7760 cents per kilowatt-hour. Fuel costs for periods beginning on July 1, 2006, and thereafter shall be open issues for determination by the Commission in future fuel costs proceedings held under the procedure and criteria established in S.C. Code Ann. §58-27-865 (Supp. 2005).

4. The Parties agree that in an effort to keep the Parties and Duke customers informed of the over/under recovery balances related to fuel costs and of Duke's best efforts to forecast the expected fuel factor to be set at its next annual fuel proceeding, Duke will provide to SCEUC, and where applicable, its customers the following information:

- (a) copies of the monthly fuel recovery reports currently filed with the PSC and ORS; and
- (b) a quarterly forecast continuing November 15, 2006 of the expected fuel factor to be set at its next annual fuel proceeding based upon Duke's historical over/under recovery to date and Duke's forecast of prices for natural gas, coal, oil and other fuel required for generation of electricity. Duke will use its best efforts in making these forecasts. To the extent that the forecast data required hereunder is confidential, any party or customer that wants forecasted fuel data will have to sign a non-disclosure agreement agreeing to protect the data from public disclosure and to only disclose it to employees or agents with a need to be aware of this information.

5 Duke agrees to provide to the Commission and ORS any and all subsequent reports or other materials generated by the Nuclear Regulatory Commission ("NRC") or Duke with respect to the unresolved items listed in the June 29, 2006 NRC Inspection Report associated with the May 20, 2006 forced outages experienced by the Catawba Units.

6. The Parties agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission as a fair, reasonable and full resolution of all issues currently pending in the above-captioned proceeding. The Parties agree to use reasonable efforts to defend and support any Commission order issued approving this Settlement Agreement and the terms and conditions contained herein.

7. This written Settlement Agreement contains the complete agreement of the Parties. There are no other terms and conditions to which the Parties have agreed. This agreement integrates all discussions had among the Parties into the terms of this written document. The Parties agree that by signing this Settlement Agreement, it will not constrain, inhibit or impair their arguments or positions held in future proceedings. If the Commission should decline to approve the agreement in its entirety, then any Party desiring to do so may withdraw from the agreement without penalty, within 3 days of receiving notice of the decision, by providing written notice of withdrawal via electronic mail to all parties in that time period.

8. This agreement shall be interpreted according to South Carolina law.

The above terms and conditions fully represent the agreement of the Parties hereto. Therefore, each Party acknowledges its consent and agreement to this Settlement Agreement by authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature

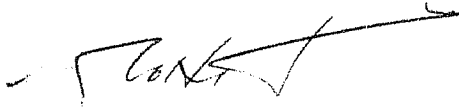
represents his or her representation that his or her client has authorized the execution of the agreement. Facsimile signatures and e-mail signatures shall be as effective as original signatures to bind any party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement.

Representing and binding the Office of Regulatory Staff:

Wendy B. Cartledge  
C. Lessie Hammonds, Esquire  
Wendy B. Cartledge, Esquire  
Office of Regulatory Staff  
1441 Main Street, Suite 300 Columbia, SC 29201  
Phone: (803) 737-0800  
Fax: (803) 737-0895  
Email: lhammon@regstaff.sc.gov  
Email: wcartle@regstaff.sc.gov

(Signature Pages Follow)

Representing and binding South Carolina Energy Users Committee:

A handwritten signature in black ink, appearing to read "Scott Elliott", is written over a horizontal line.

Scott Elliott, Esquire  
Elliott & Elliott, P.A.  
721 Olive Street Columbia, SC 29205  
Phone: (803) 771-0555  
Fax: (803) 771-8010  
Email: selliot@elliottlaw.us

Representing and binding Duke Power Company LLC d/b/a Duke Energy Carolinas, LLC:

A handwritten signature in black ink, appearing to read "R. L. Whitt", is written over a horizontal line.

William F. Austin, Esquire  
Richard L. Whitt, Esquire  
Austin, Lewis & Rogers, P.A.  
Post Office Box 11716 Columbia, SC 29201  
Phone: (803) 256-4000  
Fax: (803) 252-3679  
Email: [wfaustin@alrlaw.com](mailto:wfaustin@alrlaw.com)  
Email: [rlwhitt@alrlaw.com](mailto:rlwhitt@alrlaw.com)

Lara S. Nichols, Esquire  
Duke Power Company LLC d/b/a Duke Energy Carolinas, LLC  
PO Box 1244 (PB05E) Charlotte, NC 28201  
Phone: (704)382-9960  
Fax: (704) 382-8137  
Email: [lsnichols@duke-energy.com](mailto:lsnichols@duke-energy.com)